clarepine

CLAREPINE DEVELOPMENTS LTD.
1982 ANNUAL REPORT

CORPORATE INFORMATION

DIRECTORS

D.M. Chisholm
Chartered Accountant
Edmonton, Alberta

R.A. McAlpine
President and Chief Executive Officer
Clarepine Developments Ltd. and
Strathcona Resource Industries Ltd.
Edmonton, Alberta

R.H. Nicholson
Businessman
Vancouver, B.C.

J.J. Stumborg
President, Gem Sod Farms Ltd.
Edmonton, Alberta

OFFICERS AND SENIOR MANAGEMENT

R.A. McAlpine
President and Chief Executive Officer

J.R. Sheard
Senior Vice-President and
Secretary-Treasurer

L.D. Johnston
Vice-President and General Manager
Strathcona Steel Mfg. Inc., a subsidiary of Strathcona Resource Industries Ltd.

P.J. Levasseur
Vice-President Operations
Sil Silica, a division of Strathcona Resource Industries Ltd.

Z.A.K. Saif
Vice-President Engineering
Strathcona Steel Mfg. Inc., a subsidiary of Strathcona Resource Industries Ltd.

C.A. Dyer
Vice-President and General Manager
Dyer Equipment Inc. a subsidiary of Strathcona Resource Industries Ltd.

C. Lomax
Vice-President Marketing
Dyer Equipment Inc. a subsidiary of Strathcona Resource Industries Ltd.

EXECUTIVE OFFICE

9303 - 51st Avenue
Edmonton, Alberta T6E 4W8
(403) 438-4848

LEGAL COUNSEL

Milner & Steer
Edmonton and Calgary, Alberta

TRANSFER AGENT

Canada Trust Company
Calgary, Alberta

ANNUAL MEETING

10:00 a.m. on Friday, April 15, 1983 at the Executive Office of the Company

BANKER

Bank of Montreal
Edmonton, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.
Edmonton, Alberta

STOCK LISTED

Alberta Stock Exchange
(Stock Symbol — CRE)

PRESIDENT'S REPORT

Gross revenue for 1982 was $10,260,000 compared to $9,508,000 for 1981. Cash flow from operations was $918,000 (24.7¢ per share) against $893,000 (23.7¢ per share) for 1981. Final net income for the year after allowing for income tax and extraordinary items was $525,000 (14.1¢ per share), 1981 was $632,000 (16.8¢ per share).

STRATHCONA STEEL MFG. INC.

Clarepine Developments Ltd. owns 56% of the outstanding shares of Strathcona Resource Industries Ltd. Strathcona Steel Mfg. Inc., a 100% owned subsidiary of Strathcona Resource Industries Ltd. is an Edmonton based fabricator of steel products specializing in large pressure vessels. Clients are usually engineering, procurement and construction companies who represent multi-national petroleum, chemical, utility or mining companies. Services provided to our clients include mechanical engineering, design, drafting, procurement, fabrication and field installation. Most products are for projects located in Western Canada, although some manufacturing has been done for export.

The most significant activity of 1982 was the completion of a 29,000 sq. ft. plant expansion to accommodate the heavier and longer vessels being built for the petroleum refining and gas processing industry, and to increase productivity by providing a better balance between the preparation and fabrication areas. The building is designed to be energy and labour efficient and the specialized production equipment acquired for the expanded facility will provide the capability to capture a larger share of the market.

The name of the business was changed from KML Custom Fabricators Ltd. to Strathcona Steel Mfg. Inc. to indicate the association with the parent company. The continued achievement of quality production by the technical and production staff have resulted in a significant improvement in our reputation and ability to obtain work.

Orders on hand or in the process of being fabricated at the beginning of the year amounted to approximately three million dollars, assuring sufficient work until spring. There are a large number of projects scheduled for mid to late 1983 and for 1984, but a soft market for our second and third quarters is possible. The short term outlook is therefore pessimistic, however Strathcona Steel has the personnel, the facilities, the technology and the financing to capture a significant share of the Canadian market during the next few years resulting in continued strong growth for this business in the longer term.

SIL SILICA

Sil Silica is an operating division of our subsidiary company Strathcona Resource Industries Ltd. Sil Silica produces industrial silica at a plant 35 miles northeast of Edmonton. The plant has an approximate capacity of 150,000 tonnes per year. The primary uses for the silica are as a raw material in the manufacture of fiberglass insulation and as a sandblasting material. Other uses are for foundry molds, railway traction sand, water and chemical filtration, roofing materals, cement

lined pipe and oil well fracturing. The finished products are marketed in bulk directly from the plant and in bags from the plant and from warehouses in Edmonton and Calgary. The warehouses also sell imported silica products not produced in Canada to satisfy customers with special needs.

The amount of silica produced and sold was down 15% from 1981, primarily as a result of a 28% reduction in sales of silica for the fiberglass market. While sales of most other products were down slightly, there was a significant increase in sales to the British Columbia market. Our ability to deliver products promptly and increases in the prices of competitive imported materials, due to the reduced value of the Canadian dollar, provided the opportunity to penetrate markets for sandblasting material, railway traction sand, and roofing materials. All research and planning had been done for a plant expansion originally scheduled for 1982 which was postponed due to the softness of the market. The waste water treatment lagoons were completed in 1982 and are satisfying environmental standards.

Since the plant is now operating at less than capacity, there are opportunities to produce other silica products which have not been produced in the past due to capacity limitations or insufficient markets. These opportunities are being studied now and will be acted upon if warranted.
There will be no significant improvements in this business until there is a recovery in housing and commercial construction but 1983 should still be profitable and perhaps one can look for a modest upturn in 1984.

1983 ACQUISITION

On January 4, 1983 Strathcona Resource Industries Ltd. acquired 75% of the shares of a company called Dyer Equipment Inc. Dyer Equipment Inc. had put a good deal of effort into marketing their products around the world including sales to the U.S., India and Venezuela. This company specializes in the building of heavy oilfield fracturing, cementing, acidizing and hot oil trucks, coil tubing units, geophysical drilling rigs, industrial cleaning units, washing, jetting and pumping units. We believe that a modest investment in the marketing efforts of Dyer Equipment is a positive move for our company. Strathcona Steel Mfg. will be working with Dyer Equipment in a joint marketing effort, which will include participation with the Alberta Government in trade shows at Houston and Singapore.

Although we expect this may well be a difficult year we view the future with optimism. I particularily want to thank our loyal, hardworking and enthusiastic staff without whom profits and growth are impossible.

R.A. McAlpine.

R.A. McAlpine
PRESIDENT

CONSOLIDATED BALANCE SHEET

November 30, 1982

Assets	1982	1981
Current assets:		
Accounts receivable	$ 1,269,000	$ 2,337,000
Work in progress and inventories (note 2)	989,000	887,000
Agreements receivable, current portion (note 3)	691,000	262,000
Prepaid expenses and deposits	42,000	86,000
	2,991,000	3,572,000
Agreements receivable (note 3)	127,000	784,000
Property, plant and equipment (note 4)	10,301,000	7,342,000
Other assets	112,000	119,000
	$13,531,000	$11,817,000

Liabilities and Shareholders' Equity	1982	1981
Current liabilities:		
Bank advances (note 5)	$ 179,000	$ 383,000
Accounts payable and accrued liabilities	968,000	1,453,000
Deferred revenue	851,000	607,000
Income taxes payable	56,000	78,000
Current portion of long-term debt (note 6)	863,000	491,000
	2,917,000	3,012,000
Long-term debt (note 6)	4,873,000	3,595,000
Deferred income taxes	256,000	216,000
Minority interest	2,698,000	2,593,000
Share capital (note 7)	670,000	683,000
Retained earnings	2,117,000	1,718,000
	2,787,000	2,401,000
	$13,531,000	$11,817,000

On behalf of the Board:

R.A. McAlpine. Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended November 30, 1982

	1982	1981
Revenue	$10,260,000	$ 9,508,000
Expenses:		
Operating	7,055,000	6,662,000
Depreciation and depletion	476,000	422,000
General and administrative	1,303,000	1,055,000
Interest – long-term debt	762,000	510,000
Interest – other	47,000	150,000
	9,643,000	8,799,000
	617,000	709,000
Gain on sale of land	108,000	—
Income from continuing operations before income taxes	725,000	709,000
Income taxes (note 8):		
Current	180,000	308,000
Deferred	40,000	(78,000)
	220,000	230,000
Net income from continuing operations	505,000	479,000
Net loss from discontinued operations (net of income tax recovery of $154,000)	—	(110,000)
Minority interest	(94,000)	(69,000)
Extraordinary items net of minority interest:		
Gain on disposal of assets (net of income taxes of $102,000)	—	186,000
Recovery of income taxes	114,000	146,000
Net income	525,000	632,000
Retained earnings, beginning of year	1,718,000	1,161,000
	2,243,000	1,793,000
Dividends paid	75,000	75,000
Purchase for cancellation of share capital (note 7)	51,000	—
Retained earnings, end of year	$ 2,117,000	$ 1,718,000
Earnings per share:		
Net income before extraordinary item	11.0¢	8.0¢
Net income	14.1¢	16.8¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended November 30, 1982

	1982	1981
Funds provided:		
From continuing operations	$ 918,000	$ 893,000
Recovery of income taxes	144,000	233,000
Reduction in agreements receivable	657,000	27,000
Proceeds from long-term debt	2,240,000	2,500,000
Proceeds from sale of property, plant and equipment (1981 - net of agreements receivable)	279,000	737,000
Proceeds from issue of share capital	—	12,000
Decrease in other assets	4,000	9,000
	4,242,000	4,411,000
Funds used:		
Discontinued operations	—	219,000
Purchases of property, plant and equipment	3,595,000	1,246,000
Reduction of long-term debt	962,000	1,846,000
Redemption of 10% convertible income debentures	—	41,000
Reduction in minority interest	32,000	58,000
Dividends paid	75,000	75,000
Purchase for cancellation of share capital	64,000	—
	4,728,000	3,485,000
Increase (decrease) in working capital	(486,000)	926,000
Working capital (deficiency), beginning of year	560,000	(366,000)
Working capital, end of year	$ 74,000	$ 560,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1982

1. Significant accounting policies:

To facilitate the understanding of data included in the financial statements, the significant accounting principles and practices followed by the Company and its subsidiary are set forth below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Strathcona Resource Industries Ltd. (Strathcona - 55.8% owned).

All material inter-company transactions have been eliminated.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. Gross margins on manufacturing contracts are recorded on the basis of the estimated stage of completion of the labour on individual contracts.

(c) Work in progress and inventories

Work in progress and inventories are valued at the lower of cost and net realizable value.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation on assets other than gas wells is calculated using the straight-line or declining balance method to charge the cost, less estimated salvage value, to operations over their useful operating lives. The salvage values and estimated useful lives are reviewed on an annual basis. The useful lives are currently estimated to be as follows:

	Range	Average
Buildings	10 to 25 years	19 years
Automotive equipment	2 to 10 years	7 years
Manufacturing and processing equipment	5 to 20 years	8 years

Depletion on gas wells is calculated using the unit of production method based on estimated reserves as determined by the Company. Based on 1982 production levels, these reserves amount to approximately seven years production.

2. Work in progress and inventories:

	1982	1981
Raw materials, parts and supplies	$ 432,000	$ 447,000
Work in progress	462,000	374,000
Finished goods	95,000	66,000
	$ 989,000	$ 887,000

3. Agreements receivable:

	1982	1981
Agreements for sale and notes receivable	$ 818,000	$ 1,046,000
Less amount included in current assets	691,000	262,000
	$ 127,000	$ 784,000

Two agreements receivable amounting to $649,000 are in default and the Company has commenced action to recover the amounts owing. The receivables are valued at the estimated net realizable value.

4. Property, plant and equipment:

	Cost		Net Book Value	
	1982	1981	1982	1981
Land	$ 3,872,000	$ 3,173,000	$ 3,872,000	$ 3,173,000
Buildings	4,014,000	1,951,000	3,465,000	1,523,000
Manufacturing and processing equipment	3,777,000	3,187,000	2,066,000	1,643,000
Automotive equipment	787,000	789,000	506,000	572,000
Oil and gas producing properties and equipment	593,000	586,000	306,000	341,000
Properties under exploration and development	86,000	90,000	86,000	90,000
	$13,129,000	$ 9,776,000	$10,301,000	$ 7,342,000

5. Bank advances:

Bank advances are secured by trade accounts receivable, work in progress and inventories.

6. Long-term debt:

	1982	1981
Debenture, secured by a specific first charge on land, buildings and mobile equipment and a first floating charge on all other assets and undertakings of Strathcona except for trade receivables and inventories where the charge will be second to bank advances, due in monthly instalments of principal and interest (13%) of $39,117 maturing February 21, 1984	$ 1,321,000	$ 1,605,000
Bank loan, secured by a specific first charge on certain land, plant and equipment, a specific second charge on certain land, buildings and mobile equipment, and a second floating charge on all other assets and undertakings of Strathcona, due in monthly principal instalments of $32,575 with interest at Canadian bank prime plus 1½%, maturing August 26, 1991	3,415,000	1,966,000
Debenture, secured by a floating charge over all the property and assets of Clarepine Developments Ltd. and hypothecation of certain shares of Strathcona, due in annual principal instalments of $150,000 in 1983 through 1985 and the balance on December 31, 1985, with interest at Canadian bank prime plus 2% payable monthly. The Company has granted the holder of the debenture an option to purchase 250,000 shares of Strathcona owned by the Company, at 82.5¢ per share, exercisable through June 30, 1983. If the option is exercised, the annual principal instalments required are deferred until December 31, 1985	1,000,000	500,000
Other	—	15,000
	5,736,000	4,086,000
Principal due within one year	863,000	491,000
	$ 4,873,000	$ 3,595,000

Annual repayment of long-term debt due in each of the next five years is:

1983	1984	1985	1986	1987
$ 863,000	$ 1,540,000	$ 541,000	$ 941,000	$ 391,000

7. Share capital:

Common shares without par value

		1982	1981
Authorized	— 10,000,000		
Issued	— 3,700,000 (1981 — 3,775,000)	$ 670,000	$ 683,000

During the year the Company purchased for cancellation 75,000 of its own common shares at a cost of $64,000. Stated capital has been reduced by $13,000 and $51,000 has been charged to retained earnings.

8. Income taxes:

(a) Income tax expense is less than the amount calculated by applying the statutory tax rate to income before income taxes due to the availability of resource allowance and manufacturing and processing deductions.

(b) Strathcona has potential income tax reduction benefits which may be realized in future years. These benefits, which have not been recorded, consist of:

(i) Losses of $4,221,000 available for application against future years' taxable incomes. These losses expire as follows:

1984	$ 165,000
1985	2,362,000
1986	942,000
1987	752,000
	$ 4,221,000

(ii) A capital loss of $512,000 available for application against future years' capital gains, with no expiry date.

(iii) Investment tax credits of $196,000 available for application against future years' income taxes payable. These investment tax credits expire as follows:

1985	$ 11,000
1986	42,000
1987	143,000
	$ 196,000

The amount of the realization of these benefits in future years will be recorded as an extraordinary item in the year of realization, except for the investment tax credits which will be recorded as a reduction in tax expense. If all potential benefits were to be realized, the amount of income tax reduction or recovery would be approximately $2,100,000.

9. Remuneration of directors:

The aggregate remuneration paid by the Company to the directors and officers of the Company and its subsidiaries was $458,000 ($370,000 in 1981).

10. Industry segment information

(in 000's)	Steel Fabricating		Silica Processing		Consolidated	
	1982	1981	1982	1981	1982	1981
Revenue	$ 6,204	$ 5,108	$ 4,056	$ 4,400	$10,260	$ 9,508
Depreciation and depletion	$ 170	$ 131	$ 306	$ 291	$ 476	$ 422
Operating income	$ 889	$ 498	$ 1,198	$ 1,406	$ 2,087	$ 1,904
General corporate expenses					(661)	(535)
Interest expense					(809)	(660)
Gain on sale of land					108	—
Income taxes					(220)	(230)
Net income from continuing operations					$ 505	$ 479
Capital expenditures:						
Steel fabricating					$ 2,340	$ 317
Silica processing					237	704
Corporate					1,018	225
					$ 3,595	$ 1,246
Identifiable assets:						
Steel fabricating					$ 5,225	$ 6,591
Silica processing					6,037	3,211
Corporate and discontinued segment					2,269	2,015
					$13,531	$11,817

11. Subsequent events:

(a) On January 4, 1983, Strathcona agreed to purchase $250,000 of redeemable preferred shares and 75% of the common shares of a new Alberta corporation which has acquired from Digitech Services Ltd. of Calgary the business, the name and some of the assets of the Dyer Equipment division of Digitech.

The consideration payable by the new corporation to Digitech is $210,000, payable over five years with interest at 10%. The consideration payable by Strathcona for the 75% of the common shares of the new corporation is 600,000 common shares of Strathcona, 500,000 of which are contingent upon the amount of cash flow generated by the new corporation. Strathcona also has an option to acquire the remaining 25% of the new corporation for three years for a consideration of 400,000 common shares of Strathcona.

(b) In January 1983 Strathcona acquired for $347,000 cash, mobile equipment and the right to perform a maintenance contract in the Northwest Territories. The estimated annual revenues arising from this contract are $400,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Clarepine Developments Ltd. as at November 30, 1982 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Edmonton, Canada
January 7, 1983

Chartered Accountants

FIVE YEAR REVIEW

(in 000's)	1982	1981	1980	1979	1978
Working Capital	$ 74	$ 560	$ (366)	$ 122	$ 284
Property, Plant and Equipment	10,301	7,342	7,476	2,032	1,324
Other Assets	239	903	142	3	5
Long-Term Debt	4,873	3,595	3,200	619	495
Deferred Taxes	256	216	295	169	30
Minority Interest	2,698	2,593	1,925	—	—
Shareholders Equity	2,787	2,401	1,832	1,369	1,088
Revenue	10,260	9,508	3,606	2,914	2,145
Income From Continuing Operations Before Tax	725	709	829	511	240
Income Taxes	220	230	293	167	56
Discontinued Operations Loss	—	110	—	—	—
Minority Interest	94	69	—	—	—
Extraordinary Item Income	114	332	—	10	44
Net Income	525	632	536	354	228
Dividends	75	75	75	75	—
Earnings per share Before Extraordinary Items	11.0¢	8.0¢	14.3¢	9.2¢	4.9¢
Net Income	14.1¢	16.8¢	14.3¢	9.5¢	6.1¢
Cash flow per share From Continuing Operations	24.7¢	23.7¢	22.9¢	16.5¢	9.4¢
Shareholders Equity per share	75.3¢	63.6¢	48.8¢	36.5¢	29.0¢